

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



ST. CLAIR RIVER SEWER AND WATER AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

To the St. Clair River Sewer and
Water Authority Board
St. Clair County, Michigan

We have audited the accompanying basic financial statements of the St. Clair River Sewer and Water Authority, a component unit of the Charter Township of East China, Michigan, as of December 31, 2007 and 2006 and for the years then ended, as listed in the Table of Contents. These financial statements are the responsibility of the Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the aforementioned financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair River Sewer and Water Authority as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated June 12, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-5 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements for the Authority. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, except for the portion marked "Unaudited" on which we express no opinion has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

June 12, 2008

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

Management's Discussion and Analysis

Our discussion and analysis of the St. Clair River Sewer and Water Authority's financial statements provides an overview of the Authority's financial activities for the years ended December 31, 2007 and 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a long-term view of the Authority's finances. Also, the financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements and supplementary financial information.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid. The two government-wide statements report the Authority's net assets and how they have changed. "Net Assets" is the difference between the assets and liabilities. The Net Asset balance is one way to measure the Authority's financial health or position.
- The third statement is the Statement of Cash Flows, which shows the change in cash and cash equivalents presenting all activity of the Authority on a cash basis.

The financial statements also include notes that provide additional information that is essential to a full understanding of the data provided in the financial statements. Supplementary information and tables are also provided for information purposes.

Government-wide Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting methods used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority, you need to consider additional factors such as changes in the general economy, new DEQ regulations, etc.

Fund Financial Statements

The Authority has only one fund, the Operating Fund, in which all of the Authority's sewer and water activities are accounted. The Operating Fund is a business-type fund, which accounts for activities on the accrual basis.

FINANCIAL OVERVIEW

The Authority had net assets of \$622,914 at December 31, 2007. This is an increase of \$106,766 from 2006. The table below summarizes the net assets at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets		
Current assets	<u>\$ 818,152</u>	<u>\$ 792,700</u>
Liabilities		
Current liabilities	112,688	112,975
Long-term liabilities	<u>82,550</u>	<u>163,577</u>
Total liabilities	<u>195,238</u>	<u>276,552</u>
Net Assets		
Restricted for equipment replacement	<u>\$ 622,914</u>	<u>\$ 516,148</u>

Since the operations of the Authority, through agreement with the Charter Townships, is to break even, the increase was directly related to the equipment replacement costs incurred, net of service fees for replacement and interest earned during the year of \$106,766.

The following table summarizes the changes in net assets for 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Operating Revenue	\$ 1,258,064	\$ 1,139,182
Operating Expenses	<u>1,258,064</u>	<u>1,139,182</u>
Operating Income	-	-
Non Operating Revenue (Expenses)	<u>106,766</u>	<u>(52,648)</u>
Change in Net Assets	<u>\$ 106,766</u>	<u>\$ (52,648)</u>

The operating expenses increased from 2006 in the amount of \$118,882 or 10.4% of total 2006 operating expenses. Of the increase, \$63,263 was related to water operations while sewer disposal operations had an increase in expenses of \$55,619. The major increase in expenditures for the water system was the result of increased wages, related fringes for plant operations and the charge for sewer plant processing of flow back.

CAPITAL ASSETS

The St. Clair River Sewer and Water Authority was established by the Charter Townships of China and East China to operate the sewer and water plants that provide services to both Charter Townships. The original sewer plant is owned by the Charter Township of East China, and recorded on the records of the Charter Township of East China. The water plant is owned by both Charter Townships (East China and China). The water plant is recorded on the respective Charter Township records based on percentage of ownership.

LONG-TERM DEBT

The long-term liabilities relates to \$82,550 of accumulated sick leave that has vested and is available to the employees of the Authority.

ECONOMIC FACTORS AND NEXT YEARS OPERATIONS

Next year's budget has been increased to reflect the inflation and to cover anticipated maintenance. Since billing customers is the responsibility of the Charter Townships, the Authority is again assured of revenues from each Charter Township, based on flow percentage of total. An effort has been made to maintain costs so as not to have excessive increase in costs to the Charter Townships. A continuous review is made of efficiency of operations and the management of water system leakage and sewer system infiltration.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the citizens and other interested parties a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the St. Clair River Sewer and Water Authority, 5111 River Road, East China, Michigan 48054.

BASIC FINANCIAL STATEMENTS

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash	\$ 2,126	\$ 9,318
Investments	699,765	621,324
Interest receivable	-	850
Due from Charter Township of China	37,193	26,965
Due from Charter Township of East China	49,884	105,474
Prepaid expenses	<u>29,184</u>	<u>28,769</u>
Total Assets	<u><u>\$ 818,152</u></u>	<u><u>\$ 792,700</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 21,605	\$ 30,896
Accrued salaries and wages	14,301	11,255
Accrued payroll taxes	8,359	861
Accrued vacation	12,423	13,963
Deposits payable	<u>56,000</u>	<u>56,000</u>
	<u>112,688</u>	<u>112,975</u>
Long-Term Liabilities:		
Advance from East China sewer fund	-	90,318
Accrued sick leave	<u>82,550</u>	<u>73,259</u>
	<u>82,550</u>	<u>163,577</u>
Total Liabilities	195,238	276,552
Net Assets:		
Restricted - equipment replacement	<u>622,914</u>	<u>516,148</u>
Total Liabilities and Fund Equity	<u><u>\$ 818,152</u></u>	<u><u>\$ 792,700</u></u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 1,083,754	\$ 988,265
Charter Township of China	174,309	150,917
Total Operating Revenues	<u>1,258,063</u>	<u>1,139,182</u>
Operating Expenses:		
Salaries and wages	567,833	528,479
Fringe benefits	266,043	235,904
Administrative expense	6,500	6,500
Office supplies	3,654	4,395
Operating supplies	66,900	71,576
Utilities	149,029	136,199
Professional service	24,277	17,521
Insurance	36,844	40,853
Sludge removal	23,780	949
Repairs and maintenance	76,622	66,879
Equipment rental	25,051	17,490
Other	11,530	12,437
Total Operating Expenses	<u>1,258,063</u>	<u>1,139,182</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	93,000	93,000
Interest earned-equipment replacement reserve	31,797	29,397
Sewer plant improvements transferred to East China plant	(18,031)	(175,045)
Total Non-Operating Revenues (Expenses)	<u>106,766</u>	<u>(52,648)</u>
Change in net assets	106,766	(52,648)
Net assets at beginning of year	<u>516,148</u>	<u>568,796</u>
Net assets at end of year	<u><u>\$ 622,914</u></u>	<u><u>\$ 516,148</u></u>

See Notes to Financial Statements

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 1,374,908	\$ 1,175,306
Payments to suppliers	(504,526)	(409,384)
Payments to employees	(549,538)	(519,284)
Payments for employee benefits	(266,043)	(235,904)
Net Cash Provided By Operating Activities	<u>54,801</u>	<u>10,734</u>
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	(18,031)	(175,045)
Service fees for equipment replacement	93,000	93,000
Advance from sewer fund	(90,318)	-
Net Cash Used by Capital and Related Financing Activities	<u>(15,349)</u>	<u>(82,045)</u>
Cash Flows From Investing Activities:		
Net changes in investments	(78,441)	(365,134)
Interest earned	31,797	29,397
Net Cash Used by Investing Activities	<u>(46,644)</u>	<u>(335,737)</u>
Net Decrease in cash	(7,192)	(407,048)
Cash at beginning of year	<u>9,318</u>	<u>416,366</u>
Cash at end of year	<u><u>\$ 2,126</u></u>	<u><u>\$ 9,318</u></u>
Reconciliation of Operating Income to Net Cash		
Used by Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income		
to net cash used by operating activities -		
Changes in assets and liabilities -		
Accounts receivable	-	-
Interest receivable	1,349	161
Prepaid expenses	(914)	328
Due from Charter Townships	57,719	(14,621)
Accounts payable	(9,291)	14,953
Accrued liabilities	18,295	9,195
Due to Charter Townships	<u>(12,357)</u>	<u>718</u>
Net Cash Provided by Operating Activities	<u><u>\$ 54,801</u></u>	<u><u>\$ 10,734</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

The accounting methods and procedures adopted by the St. Clair River Sewer and Water Authority conforms to accounting principles generally accepted in the United States of America as applied to governmental entities. The following Notes to Financial Statements are an integral part of the Authority's financial statements:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity –

The St. Clair River Sewer and Water Authority were created by the Charter Townships of China and East China, both located in the County of St. Clair, Michigan. The Authority is operated under a joint five (5) member Board appointed by the Charter Township's Boards, the purpose of which is to operate and maintain a sanitary sewage treatment plant and water plant in accordance with the authorization of Act 233, Public Acts of Michigan, 1955, as amended. The Authority has contracted with the Charter Township of East China to perform the administration, operations, and maintenance of the facilities.

B. Government-Wide and Fund Financial Statements –

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The St. Clair River Sewer and Water Authority are accounted for in two business-type departments.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the limits of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activity, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

D. Assets, Liabilities and Net Assets –

Cash and Cash Equivalent –

The Authority's cash and cash equivalent are savings accounts, demand deposits, and short-term investments with original maturities of three months or less for the date of acquisition.

Deposits –

The deposits represent money deposited by the Charter Townships of China and East China to provide cash for the operations of the sewer and water systems.

Receivables –

The Authority bills the two Charter Townships based on the percentage of sewer and water usage. It is the responsibility of the Charter Townships to bill individual customers. Based on a reconciliation of estimate payments to final results, the Charter Townships either owe or are owed an amount at the end of the year. These amounts are reported as due from or to the Charter Townships.

Capital Assets –

The St. Clair River Sewer and Water Authority were established to administer and operate the Sewer and Water Utility Plants servicing the Charter Townships of China and East China. No capital assets are owned by the Authority. Ownership is retained by the Charter Townships and recorded in the Charter Township's records.

Estimates –

In preparing financial statements in conformity with U.S. generally accepted accounting principles, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

NOTE 2 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investment –

The Charter Township of East China's investment policy on behalf of the Authority and Act 20 PA 1943, as amended, authorizes the deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Act 20 PA 1943 as amended authorizes the Charter Township of East China on behalf of the Authority to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

The Charter Township of East China's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Charter Township of East China's Treasurer is responsible for the investment program.

Deposits –

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

The Authority's deposits consist of checking accounts. At December 31, 2007 and 2006, the carrying amounts and bank balance of the Authority's deposits are \$2,126 and \$9,318, respectively.

Custodial Credit Risk – Deposits, is the risk that in the event of a bank failure, the Authority's deposits or investments may not be returned.

As of December 31, 2007, the bank balance of the Authority's deposits was \$2,126 all of which was FDIC insured.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

NOTE 2 - DEPOSITS AND INVESTMENTS – (cont'd):

Investments –

As of December 31, 2007, The Chartered Township of East China (Township), on behalf of the Authority had invested the funds listed as investments within the general investment pool of the Township, which consisted of investment trust funds, money market accounts, and certificates of deposits. Information regarding these investments and the associated risks can be obtained through the Township's Financial Report for the year ended December 31, 2007. The investment policy of the Authority and Township share investment requirements as well as the hierarchy of risk aversion.

The investments reported in the financial statements contain a combination of money market and investment trust accounts, which maintain characteristics of demand deposit accounts in that the Authority may deposit additional cash at any time and effectively may withdraw funds at any time without penalty. The reason for reporting these accounts as investments is that it is the intent of the Authority/Township to not make withdrawals from the investment trust and money market accounts since these funds are part of the Authority/Townships pooled investment program.

NOTE 3 - SEWAGE DISPOSAL AGREEMENT:

The Charter Township of East China owns the sewage disposal plant. However, along with the Charter Township of China has contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance, and administration of the sewage disposal plant. The total cost of the operations and administration of the sewage disposal plant is billed to the two Charter Townships based on reserved capacity and flow applicable to each Charter Township after reimbursement from the Authority water fund.

NOTE 4 - WATER FILTRATION AGREEMENT:

In 1999, the Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a water filtration plant. Upon completion the Chartered Township's entered into a lease purchase agreement with the County. The Charter Townships have contracted with the St. Clair River Sewer and Water Authority for the operations, maintenance and administration of the plant and related distribution lines. The total cost of operations, maintenance and administration of the water filtration system is billed to the Charter Townships based on water flow and distribution line benefit.

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

NOTE 5 - DUE FROM CHARTER TOWNSHIPS:

The following is a schedule of the amount due from the Charter Townships at December 31, 2007:

	<u>Departments</u>		
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>
Charter Township of China			
December 2007 billing	\$ 6,841	\$ 12,412	\$ 19,253
Annual settlement	<u>7,601</u>	<u>10,339</u>	<u>17,940</u>
	<u>\$ 14,442</u>	<u>\$ 22,751</u>	<u>\$ 37,193</u>
Charter Township of East China			
Annual settlement	<u>\$ 26,768</u>	<u>\$ 23,116</u>	<u>\$ 49,884</u>

NOTE 6 - DEPOSITS FOR OPERATIONS:

The deposit balance represents money deposited by the Charter Townships of East China and China to provide cash for operations of the sewer and water system. The deposit balance per Charter Township is as follows:

<u>Sewer Department</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Charter Township of East China	\$ 32,900	\$ 32,900
Charter Township of China	<u>2,100</u>	<u>2,100</u>
	<u>\$ 35,000</u>	<u>\$ 35,000</u>
 <u>Water Department</u>		
	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Charter Township of East China	\$ 16,000	\$ 16,000
Charter Township of China	<u>5,000</u>	<u>5,000</u>
	<u>\$ 21,000</u>	<u>\$ 21,000</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

NOTE 7 - RESTRICTED FOR EQUIPMENT REPLACEMENT:

The Charter Townships have elected to have a portion of the fees charged to them to be restricted for equipment replacement. The following is a summary of the change in the restricted balances for the year ended December 31, 2007:

	<u>Sewer Department</u>	<u>Water Department</u>
Restricted balance at December 31, 2006	\$ 367,758	\$ 148,390
Service fees for equipment replacement	48,000	45,000
Interest earned	<u>21,173</u>	<u>10,624</u>
	436,931	204,014
Sewer plant improvements transferred to East China plant	(<u>8,750</u>)	(<u>9,281</u>)
Restricted balance at December 31, 2007	<u>\$ 428,181</u>	<u>\$ 194,733</u>

SUPPLEMENTARY FINANCIAL INFORMATION

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Current Assets:		
Cash	\$ 867	\$ 4,851
Investments	465,146	417,474
Interest receivable	-	850
Due from -		
Charter Township of China	14,442	12,161
Charter Township of East China	26,768	26,580
Prepaid expenses	<u>14,191</u>	<u>14,408</u>
Total Assets	<u>\$ 521,414</u>	<u>\$ 476,324</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 12,622	\$ 23,525
Accrued salaries and wages	7,600	5,746
Accrued payroll taxes	3,188	439
Accrued vacation	8,938	9,666
Deposits payable	35,000	35,000
Due to water fund	<u>750</u>	<u>13,107</u>
	<u>68,098</u>	<u>87,483</u>
Long-Term Liabilities:		
Accrued sick leave	<u>25,135</u>	<u>21,083</u>
Total Liabilities	93,233	108,566
Net Assets:		
Restricted - equipment replacement	<u>428,181</u>	<u>367,758</u>
Total Liabilities and Fund Equity	<u>\$ 521,414</u>	<u>\$ 476,324</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****SEWER DEPARTMENT****STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Operating Revenues:		
Charges for services -		
Charter Township of East China	\$ 500,450	\$ 463,883
Charter Township of China	85,709	80,469
Authority water fund	71,483	50,027
Total Operating Revenues	<u>657,642</u>	<u>594,379</u>
Operating Expenses:		
Salaries and wages	278,453	268,499
Fringe benefits	139,177	127,540
Administrative expense	6,500	6,500
Office supplies	1,008	1,278
Operating supplies	42,118	47,998
Utilities	80,158	77,594
Professional service	20,607	14,680
Insurance	16,842	18,578
Sludge removal	23,780	949
Repairs and maintenance	39,434	22,443
Equipment rental	1,800	1,698
Other	7,765	6,622
Total Operating Expenses	<u>657,642</u>	<u>594,379</u>
Operating income	<u>-</u>	<u>-</u>
Non-Operating Revenues (Expenses):		
Service fees for equipment replacement	48,000	48,000
Interest earned-equipment replacement	21,173	20,213
Equipment and plant improvements transferred to Charter Township	(8,750)	(161,314)
Total Non-Operating Revenues (Expenses)	<u>60,423</u>	<u>(93,101)</u>
Change in net assets	60,423	(93,101)
Net assets at beginning of year	<u>367,758</u>	<u>460,859</u>
Net assets at end of year	<u>\$ 428,181</u>	<u>\$ 367,758</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

SEWER DEPARTMENT
STATEMENT OF CHANGES IN CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 655,173	\$ 599,558
Receipts from water fund	(12,357)	718
Payments to suppliers	(249,848)	(183,495)
Payments to employees	(270,526)	(263,059)
Payments for employee benefits	(139,177)	(127,540)
Net Cash Provided (Used) By Operating Activities	<u>(16,735)</u>	<u>26,182</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	(8,750)	(161,314)
Service fees for equipment replacement	48,000	48,000
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>39,250</u>	<u>(113,314)</u>
Cash Flows From Investing Activities:		
Net changes in investments	(47,672)	(161,284)
Interest earned	21,173	20,213
Net Cash Used by Investing Activities	<u>(26,499)</u>	<u>(141,071)</u>
 Net Decrease in Cash	 (3,984)	 (228,203)
 Cash at beginning of year	 <u>4,851</u>	 <u>233,054</u>
 Cash at end of year	 <u><u>\$ 867</u></u>	 <u><u>\$ 4,851</u></u>
 Reconciliation of Operating Income to Net Cash		
Used By Operating Activities:		
Operating income for the year	\$ -	\$ -
Adjustments to reconcile operating income		
to net cash provided by operating activities -		
Changes in assets and liabilities -		
Due from Charter Townships	(2,469)	5,179
Interest Receivable and other	1,067	(121)
Accounts payables	(10,903)	14,966
Accrued liabilities	7,927	5,440
Due to other fund	(12,357)	718
Net Cash Provided (Used) by Operating Activities	<u><u>\$(16,735)</u></u>	<u><u>\$ 26,182</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

SCHEDULE OF CHARGES FOR SEWER SERVICES TO CHARTER TOWNSHIPS

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2007

FLOW APPORTIONMENT OF SEWER NET OPERATING EXPENSES

	Annual Sewer Flow (A)		
	Total	Residential and Commercial	Township Percentage
Charter Township Of China:			
Belle River Edison Plant (metered sewer)	2,604 gal		
Continental Coating (metered sewer)	1,086	1,086 gal	
Residential and Commercial (B)	13,853	13,853	
	17,543	14,939	8.29%
Water Plant			
Reject water into plant	24,994		
Charter Township of East China:			
St. Clair Edison Plant (metered sewer)	22,277		
Residential and Commercial (balance of flow (C))	165,175	165,175	91.71%
	187,452		
Total Metered Flow at Sewer Plant	229,989 gal	180,114 gal	100.00%

Notes:

- (A) Flow is in 1,000 gallons.
- (B) Based on water flow of 13,508 gallons increased by 2.6% for seepage.
- (C) Represents balance after Charter Township of China, St. Clair Edison Plant and Water Plant flows are subtracted from total metered flow at Sewer Plant.

DOLLAR APPORTIONMENT

	Total	Charter Township of China	Charter Township of East China
Total Expenses to be Apportioned:			
Operation and maintenance expenses	\$ 657,642		
Add - restrictions for equipment replacement	48,000		
Less - sewer usage by water plant	(71,483)		
Total Expenses to be Apportioned	\$ 634,159		
Township Portion of Expenditures:			
Total expenditures to be apportioned	\$ 634,159		
Less - charges for sewer services to Edison plants based on reserved capacity, not flow, (76,503,635 gal x \$2.89/thousand gallons)	221,095	\$ 55,429	\$ 165,666
Balance apportioned to Townships based on 8.29% and 91.71%, respectively	413,064	34,261	378,803
Total Sewer Service Charges	634,159	89,690	544,469
Less - 2007 billings	(599,790)	(82,089)	(517,701)
Amount due from Charter Townships	\$ 34,369	\$ 7,601	\$ 26,768

ST. CLAIR RIVER SEWER AND WATER AUTHORITY**St. Clair County, Michigan****WATER DEPARTMENT
STATEMENT OF NET ASSETS
DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	\$ 1,259	\$ 4,467
Investments	234,619	203,850
Due from sewer fund	750	13,107
Due from -		
Charter Township of China	22,751	14,804
Charter Township of East China	23,116	78,894
Prepaid expenses	<u>14,993</u>	<u>14,361</u>
Total Assets	<u><u>\$ 297,488</u></u>	<u><u>\$ 329,483</u></u>
LIABILITIES AND FUND EQUITY		
Current Liabilities:		
Accounts payable	\$ 8,983	\$ 7,371
Accrued salaries and wages	6,701	5,509
Accrued payroll Taxes	5,171	422
Accrued vacation	3,485	4,297
Deposits payable	<u>21,000</u>	<u>21,000</u>
	<u>45,340</u>	<u>38,599</u>
Long-Term Liabilities:		
Advance from East China sewer fund	-	90,318
Accrued sick leave payable	<u>57,415</u>	<u>52,176</u>
	<u>57,415</u>	<u>142,494</u>
Total Liabilities	102,755	181,093
Net Assets:		
Restricted - equipment replacement	<u>194,733</u>	<u>148,390</u>
Total Liabilities and Fund Equity	<u><u>\$ 297,488</u></u>	<u><u>\$ 329,483</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY

St. Clair County, Michigan

WATER DEPARTMENT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE PERIODS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Operating Revenues:		
Charges for services (water usage) -		
Charter Township of East China	\$ 522,043	\$ 478,100
Charter Township of China	71,839	57,707
	<u>593,882</u>	<u>535,807</u>
Charges for services (water distribution lines) -		
Charter Township of East China	61,261	46,282
Charter Township of China	16,761	12,741
	<u>78,022</u>	<u>59,023</u>
Total Operating Revenue	<u>671,904</u>	<u>594,830</u>
Operating Expenses:		
Plant -		
Salaries and wages	254,627	231,098
Fringe benefits	123,791	106,154
Office supplies	2,646	3,117
Operating supplies	24,130	23,008
Professional services	3,670	2,841
Utilities	57,903	52,622
Insurance	17,712	19,375
Repairs and maintenance	33,191	40,943
Equipment rental	1,200	1,697
Sewer plant processing of flow back	71,483	50,027
Other	3,529	4,925
	<u>593,882</u>	<u>535,807</u>
Distribution Lines -		
Salaries and wages	34,753	28,882
Fringe benefits	3,075	2,210
Supplies	652	570
Utilities	10,968	5,983
Insurance	2,290	2,900
Repairs and maintenance	3,997	3,493
Equipment rental	22,051	14,095
Other	236	890
	<u>78,022</u>	<u>59,023</u>
Total Operating Expenses	<u>671,904</u>	<u>594,830</u>
Total Operating Income	<u>-</u>	<u>-</u>
Non-Operating Revenues:		
Service fees for equipment replacement	45,000	45,000
Interest earned- equipment replacement	10,624	9,184
Plant improvement transfer	(9,281)	(13,731)
Total Non-Operating Revenues	<u>46,343</u>	<u>40,453</u>
Change in net assets	46,343	40,453
Net assets at beginning of year	<u>148,390</u>	<u>107,937</u>
Net assets at end of year	<u>\$ 194,733</u>	<u>\$ 148,390</u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

WATER DEPARTMENT
STATEMENT OF CHANGES IN CASH FLOWS
FOR THE PERIOD ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash Flows From Operating Activities:		
Receipts from Charter Townships	\$ 719,735	\$ 575,748
Receipts from sewer fund	12,357	(718)
Payments to suppliers	(254,678)	(225,889)
Payments to employees	(279,012)	(256,225)
Payments for employee benefits	(126,866)	(108,364)
Net Cash Used By Operating Activities	<u>71,536</u>	<u>(15,448)</u>
Cash Flows From Capital and Related Financing Activities:		
Equipment and plant improvements	(9,281)	(13,731)
Service fee for equipment replacement	45,000	45,000
Advance from sewer fund	(90,318)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(54,599)</u>	<u>31,269</u>
Cash Flows From Investing Activities:		
Net change in investment	(30,769)	(203,850)
Interest earned	10,624	9,184
Net Cash Used by Investing Activities	<u>(20,145)</u>	<u>(194,666)</u>
 Net Decrease in Cash	 (3,208)	 (178,845)
 Cash at beginning of year	 <u>4,467</u>	 <u>183,312</u>
 Cash at end of year	 <u><u>\$ 1,259</u></u>	 <u><u>\$ 4,467</u></u>
 Reconciliation of Operating Income to Net Cash		
Used By Operating Activities:		
Operating loss for the year	\$ -	\$ -
Adjustments to reconcile operating loss		
to net cash used by operating activities -		
Changes in assets and liabilities -		
Prepaid expenses	(632)	610
Due from Charter Township of East China	55,778	(15,293)
Due from Charter Township of China	(7,947)	(3,789)
Due from other fund	12,357	(718)
Accounts payable	1,612	(13)
Accrued liabilities	10,368	3,755
Due to Charter Township of East China	-	-
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 71,536</u></u>	<u><u>\$(15,448)</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

SCHEDULE OF CHARGES FOR WATER SERVICES TO CHARTER TOWNSHIPS
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2007

FLOW APPORTIONMENT OF WATER PLANT NET OPERATING EXPENSES

		<u>Water Flow</u>	<u>Township Percentage</u>
Total water flow from plant		187,460 gal	100.0%
Less flow to:			
China Township residential and commercial customers	18,130 gal		
Belle River Edison Plant	<u>4,546 gal</u>	<u>22,676</u>	<u>12.1%</u>
Water flow for Charter Township of East China		<u><u>164,784 gal</u></u>	<u><u>87.9%</u></u>

DOLLAR APPORTIONMENT

	<u>Total</u>	<u>Charter Township of China</u>	<u>Charter Township of East China</u>
Total Expenses to be Apportioned:			
Total Expenses to be Apportioned	\$ 593,882		
Add restricted for replacement-			
modules/ fibers	25,000		
other equipment	<u>20,000</u>		
	638,882	\$ 77,282	\$ 561,600
Less - 2007 billings	<u>(608,764)</u>	<u>(67,573)</u>	<u>(541,191)</u>
Due from Charter Townships	<u><u>\$ 30,118</u></u>	<u><u>\$ 9,709</u></u>	<u><u>\$ 20,409</u></u>

ST. CLAIR RIVER SEWER AND WATER AUTHORITY
St. Clair County, Michigan

**SCHEDULE OF CHARGES FOR OPERATION AND MAINTENANCE
OF WATER DISTRIBUTION LINES
(UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

MILEAGE APPORTIONMENT BASED ON SYSTEM BENEFIT

	Operations and Maintenance Distribution				
	China		East China		
	Number of Miles	Percentage of total	Number of Miles	Percentage of total	Number of Miles
Charter Township of China:					
Joint Transmission	3.3	79%	2.6	21%	0.7
China Only	3.3	100%	3.3	0%	0.0
	<u>6.6</u>		<u>5.9</u>		<u>0.7</u>
Charter Township of East China:					
Joint Transmission	12.3	20%	2.5	80%	9.8
East China Only	20.2	0%	0.0	100%	20.2
	<u>32.5</u>		<u>2.5</u>		<u>30</u>
Totals	<u>39.1 miles</u>		<u>8.4 miles</u>		<u>30.7 miles</u>

Charter Township of China	8.4 miles	21.48%
Charter Township of East China	30.7 miles	78.52%
	<u>39.1 miles</u>	<u>100.00%</u>

SUMMARY DOLLAR APPORTIONMENT

		China 21.48%	East China 78.52%
Total Expense	\$ 78,022	\$ 16,761	\$ 61,261
Less: Paid in 2007	(74,685)	(16,131)	(58,554)
Due from Charter Townships	<u>\$ 3,337</u>	<u>\$ 630</u>	<u>\$ 2,707</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

To the Members of the Authority Board
St. Clair Sewer and Water Authority
St. Clair County, Michigan

We have audited the basic financial statements of the St. Clair Sewer and Water Authority, a component unit of the Charter Township of East China, Michigan as of and for the year ended December 31, 2007, which collectively comprise the St. Clair Sewer and Water Authority, Michigan's basic financial statements and have issued our report thereon dated June 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered St. Clair Sewer and Water Authority, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the St. Clair Sewer and Water Authority, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the St. Clair Sewer and Water Authority, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the St. Clair Sewer and Water Authority, Michigan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the St. Clair Sewer and Water Authority, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the St. Clair Sewer and Water Authority, Michigan's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Preparation of Financial Statements In Accordance with Generally Accepted Accounting Principles.

Management has had the auditor prepare the annual financial statements and East China as fiscal agent for the Authority review the financial accuracy; however, has relied on the auditor for the financial statement presentation and the notes to the financial statements, to be in accordance with Generally Accepted Accounting Principles.

Statement on Auditing Standard No. 112 "Communicating Internal Control Related Matters Identified in an Audit" specifies that the Authority is responsible for internal control over financial reporting. This financial reporting includes the financial statements, including the notes, being presented in accordance with Generally Accepted Accounting Principles.

There is a possibility that a misstatement of the Authority's financial statements that is more than inconsequential could occur and not be prevented or detected by the Authority's internal control.

We recommend that the Authority's management consider having someone in the Authority become more familiar with reporting for governmental units under generally accepted auditing principles. However, with the implementation of any internal control procedure, efficiency and cost must be evaluated along with risk.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the St. Clair Sewer and Water Authority, Michigan's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether St. Clair Sewer and Water Authority, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of St. Clair Sewer and Water Authority in a separate letter dated June 12, 2008.

This report is intended solely for the information and use of management, the Authority Board, others with the St. Clair Sewer and Water Authority, and the Michigan Department of Treasury and is not intended to be and should be used by anyone other than these specified parties.



Certified Public Accountants

June 12, 2008

To the Members of the Board of the
St. Clair Sewer and Water Authority
St. Clair County, Michigan

We have audited the basic financial statements of the St. Clair Sewer and Water Authority, a component unit of the Charter Township of East China, Michigan, for the year ended December 31, 2007, and have issued our report thereon dated June 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the St. Clair Sewer and Water Authority, Michigan. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the St. Clair Sewer and Water Authority, Michigan's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter and discussions with management.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the St. Clair Sewer and Water Authority, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transactions entered into by the St. Clair Sewer and Water Authority, Michigan during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate for allocation of maintenance costs to the Townships of China and East China

Management estimates based on the engineering reports indicating the total miles of shared and sole purpose water lines. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for costs associated with water loss (for water) and water infiltration (for sewage)

The estimate is based on allocating the water loss/sewer infiltration costs by the activity for each of the participating Townships. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Year End Assistance

Under agreed upon procedures, the Authority has our firm calculate the allocation of expenses to be reimbursed by the two Charter Townships, based on flow information, formulas and procedures provided by the Authority. As a result, entries are proposed to adjust revenues and the resulting due from/to the Charter Townships. These proposed entries are material to the financial statements.

Significant Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no proposed audit adjustments.

Statement on Auditing Standards No. 112

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommended to management that the Authority evaluate the cost versus the benefit of expanding internal control over financial reporting to include presentation under GAAP.

Other Audit Internal Control Communication

In addition to the Report on Internal Control, we noted a few other items that, although are not considered significant deficiencies, could improve controls, operational efficiency and/or compliance with laws and regulations that were identified during the audit of the East China Township (fiscal agent of the Authority) and are outline in Attachment A. The items listed in Attachment A are a subset of the items outlined in the Audit Communication Letter for East China Township, which directly relate to the operations of the Authority.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 12, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the St. Clair Sewer and Water Authority, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the information and use of the Authority Board and management of the St. Clair Sewer and Water Authority, Michigan and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

June 12, 2008

Attachment A

The following is a list of items that we discussed with administration that are not considered significant deficiencies, however, are items that could improve controls, operational efficiency, and/or compliance with laws and regulations.

Access to the General Ledger and journal entries should be limited to the Clerk's office.

Based on discussions with management it is our understanding that all employees have access to the general ledger and the ability to post journal entries. Since the Treasurer's office deposits and maintains cash and investments they should not have the ability to post to the general ledger, other than cash receipting, and should not have the access to post journal entries. We recommend that the Authority review who has access to each module and limit the access to the general ledger and journal entries by password.

Back-up of the computer system data should be maintained off-site.

Based on discussions with management it is our understanding that the Authority backs-up the data files each night with the file maintained in the Authority vault. In the event of a fire or other natural disaster the back-up could be damaged or lost. To increase security, we recommend that the Authority maintain back-up files off-site at least monthly but preferably on a weekly basis.

Controls over the utility billing system could be improved.

During our audit, it was noted that the same employee creates billings, posts adjustments to the billing, collects payments, and has access to post journal entries. While no irregularities were noted, controls should be reviewed and improved by limiting the biller's access to post journal entries and collecting/posting payments.